

### Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <a href="http://about.jstor.org/participate-jstor/individuals/early-journal-content">http://about.jstor.org/participate-jstor/individuals/early-journal-content</a>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

# THE FEDERAL RESERVE SYSTEM—ITS PURPOSE AND WORK

## The Annals

VOLUME XCIX

JANUARY, 1922

EDITOR: CLYDE L. KING ASSISTANT EDITOR: J. H. WILLITS

EDITORIAL COUNCIL: THOMAS CONWAY, JR., C. H. CRENNAN, A. A. GIESECKE, A. R. HATTON, AMOS S. HERSHEY, E. M. HOPKINS, S. S. HUEBNER, CARL KELSEY, J. P. LICHTENBERGER, ROSWELL C. McCREA, E. M. PATTERSON, L. S. ROWE, HENRY SUZZALO, T. W. VAN METRE, F. D. WATSON

Editors in Charge of this Volume
A. D. WELTON
C. H. CRENNAN



THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
39th Street and Woodland Avenue
Philadelphia
1922

Copyright, 1922, by
The American Academy of Political and Social Science
All rights reserved

#### **EUROPEAN AGENTS**

ENGLAND: P. S. King & Son, Ltd., 2 Great Smith Street, Westminster, London, S. W.

FRANCE: L. Larose, Rue Soufflot, 22, Paris.

GERMANY: Mayer & Müller, 2 Prinz Louis Ferdinandstrasse, Berlin, N. W. ITALY: Giornale Degli Economisti, via Monte Savello, Palazzo Orsini, Rome.

SPAIN: E. Dossat, 9 Plaza de Santa Ana, Madrid

### CONTENTS

CONTRIBUTORS TO THIS VOLUME	PAGE
FOREWORD—THE INTEGRITY OF THE FEDERAL RESERVE SYSTEM	ix
PART I—BEFORE THE RESERVE ACT	
OUTLINE OF BANKING HISTORY FROM THE FIRST BANK OF THE UNITED STATES THROUGH THE PANIC OF 1907	1
THE STUDIES OF THE NATIONAL MONETARY COMMISSION	17
THE NATIONAL CITIZENS' LEAGUE: A MOVEMENT FOR A SOUND BANKING SYSTEM	26
THE EDUCATIONAL CAMPAIGN FOR BANKING REFORM	29
THE FEDERAL RESERVE ACT IN CONGRESS.  H. Parker Willis, Columbia University	36
THE ALDRICH-VREELAND EMERGENCY CURRENCY	49
PART II—THE PURPOSES OF THE FEDERAL RESERVE ACT	
THE RESERVE ACT IN ITS IMPLICIT MEANING	56
THE PURPOSES OF THE FEDERAL RESERVE ACT AS SHOWN BY ITS EXPLICIT PROVISIONS	62
PART III—OPERATION OF THE SYSTEM	
POLITICAL PRESSURE AND THE FUTURE OF THE FEDERAL RESERVE SYSTEM Paul M. Warburg, Member of the Federal Reserve Board, 1914–1918	70
EARLY FUNCTIONING OF THE FEDERAL RESERVE SYSTEM  Arthur Reynolds, President, Continental and Commercial National Bank of Chicago  THE FEDERAL RESERVE SYSTEM.	74
THE FEDERAL RESERVE SYSTEM, STATE BANKS AND PAR COLLECTIONS.  Pierre Jay, Chairman and Federal Reserve Agent, Federal Reserve Bank of New York RELATIONS OF RESERVE BANKS TO MEMBER BANKS AND INTER-RELATIONS	79
OF FEDERAL RESERVE BANKS.  R. M. Gidney, Controller at Large, Federal Reserve Bank of New York	87
THE EVOLUTION AND PRACTICAL OPERATION OF THE GOLD SETTLEMENT FUND	
George J. Seay, Governor of the Federal Reserve Bank of Richmond	95
ELIGIBILITY FOR DISCOUNT	105
AMENDMENTS TO THE FEDERAL RESERVE ACT	114
PREPARATION FOR WAR AND THE LIBERTY LOANS.  J. H. Case, Deputy Governor, Federal Reserve Bank of New York	121
THE ASSUMPTION OF TREASURY FUNCTIONS BY THE FEDERAL RESERVE BANKS	1 <b>2</b> 9
Murray S. Wildman, Stanford University THE ESTABLISHMENT AND SCOPE OF BRANCHES OF FEDERAL RESERVE	
BANKS.  E. R. Fancher, Governor, Federal Reserve Bank of Cleveland	135

iv Contents

CURVES OF EXPANSION AND CONTRACTION 1919-1921  A. C. Miller, Federal Reserve Board, Washington, D. C.	142
EXPANSION AND CONTRACTION UNDER THE FEDERAL RESERVE SYSTEM Ernest Minor Patterson, University of Pennsylvania	151
EXPANSION AND CONTRACTION AS SEEN BY A BUSINESS MAN	163
CURRENCY EXPANSION AND CONTRACTION	167
EXPANSION AND CONTRACTION FROM THE FEDERAL RESERVE STAND-POINT	174
John H. Rich, Chairman and Federal Reserve Agent, Federal Reserve Bank of Minneapolis PRINCIPLES GOVERNING THE DISCOUNT RATE W. P. G. Harding, Governor of the Federal Reserve Board	183
REDISCOUNT RATES, BANK RATES AND BUSINESS ACTIVITY	190
THEORETICAL CONSIDERATIONS BEARING ON THE CONTROL OF BANK CREDIT UNDER THE OPERATION OF THE FEDERAL RESERVE SYSTEM Chester A. Phillips, University of Iowa	195
AGRICULTURAL AND COMMERCIAL LOANS.  J. B. McDougal, Governor, Federal Reserve Bank of Chicago	199
POPULAR AND UNPOPULAR ACTIVITIES OF THE FEDERAL RESERVE BOARD AND THE FEDERAL RESERVE BANKS	203
THE DEVELOPMENT OF AN OPEN MARKET FOR COMMERCIAL PAPER E. E. Agger, Columbia University	209
THE EFFICIENCY OF CREDIT O. M. W. Sprague, Harvard University	218
BOOK DEPARTMENT	222
INDEX	225

#### CONTRIBUTORS TO THIS VOLUME

AGGER, E. E.—Associate Professor of Economics, Columbia University. Contributing editor to the Standard Daily Trade Service.

For some time Assistant to President of the National City Bank, N. Y.

Editor, American Edition of Clay's Economics for the General Reader and author of articles on banking subjects.

Beckhart, B. H.—Lecturer in Banking, School of Business, Columbia University, 1921; Instructor in Economics and Social Institutions, Princeton University, 1920–1921; employed at Federal Reserve Bank

Case, J. H.—Deputy Governor, Federal Reserve Bank of New York, 1917 to date.

of New York, 1919-1920.

Was Vice-President, Farmers Loan and Trust Co., New York City, also Secretary-Treasurer-Vice-President, Plainfield Trust Co., Plainfield, N. J.

Crennan, C. H.—Economist, Continental and Commercial National Bank, Chicago; formerly member of faculty, University of Pennsylvania, Director, Research Bureau, Pennsylvania State Chamber of Commerce, and Assistant Editor of *The Annals* of the American Academy of Political and Social Science.

Editor-in-charge of several volumes of *The Annals*.

Dodge, Homer J.—Editor, Federal Trade Information Service; President, The Treasury Correspondents Association. During the War reported financial and economic news for the international News Service, covering Treasury, Federal Reserve Board and other business departments.

Author of numerous articles on economic topics. Compiled speakers' handbook for Four Minute Men which contained information about war financing.

Fancher, E. R.—Governor, Federal Reserve Bank of Cleveland, 1914 to

Formerly President, Union National Bank, Cleveland.

FARWELL, J. V.—President, John V. Farwell Company, Chicago; Director, Na-

tional Bank of the Republic, Chicago, and Harris Safety Deposit Co., Chicago; Director, Liverpool & London & Globe Insurance Co.; President, First State Pawners Society of Chicago.

Was President of the National Citizens League for the Promotion of a Sound Banking System.

Forgan, J. B.—Chairman of the Board, First National Bank of Chicago.

Was with Royal Bank of Scotland for three years; later with Bank of British North America, with assignments to Montreal, New York and Halifax; Inspector of Agencies, Bank of Nova Scotia; Cashier and Manager, Northwestern National Bank, Minneapolis 1888; Vice-President, First National Bank, Chicago, 1892, President, 1900, Chairman of Board since 1916. Member Board of Directors, Federal Reserve Bank, Chicago, 1914-1919; President, Advisory Council, Federal Reserve Board, 1914-1920; Vice-Chairman, Currency Commission, American Bankers Association, 1907 to date.

Gidney, R. M.—Controller at Large, Federal Reserve Bank of New York.

For eight years engaged in banking at Santa Barbara and Bakersfield, California. August 1914, appointed secretary to A. C. Miller, member of the Federal Reserve Board; later, Federal Reserve examiner; 1917, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York. Manager of the Buffalo Branch of the Federal Reserve Bank of New York, 1919–1921.

HARDING, W. P. G.—Governor, Federal Reserve Board, Washington, since 1916.

Vice-President, Berney National Bank, Birmingham, 1896, President 1902. Member Federal Reserve Board, Washington 1914. President, Alabama State Bankers' Association 1908 and Birmingham Chamber of Commerce, 1913.

JAY, PIERRE—Federal Reserve Agent and Chairman of Board, Federal Reserve Bank of New York since 1914.

Vice-President, Manhattan Company, New York, 1909–1914; Bank Commissioner of Massachusetts, 1906–1909; Vice-President, Old Colony Trust Company, Boston, 1903–1906.

KEMMERER, E. W.—Professor of Economics and Finance, Princeton University. Professor of Economics and Finance, 1909–1912 Cornell University; Assistant Professor Political Economy, 1906–1909. Financial adviser to United States Philippine Commission, 1903; Chief, Division of Currency, P. I., 1904–06; Special Commissioner Philippine Government to Egypt, 1906; Financial adviser to Government of Mexico 1917 and to Government of Guatemala, 1919. Managing editor of the Economic Bulletin, 1907–1910; Associate editor, American Economic Review 1911–1914.

Author numerous reports on banking and currency questions; Money and Credit Instruments in their Relation to General Prices, 1907, revised 1909; Seasonal Variations in the Relative Demands for Money and Capital in the United States (in report of National Monetary Commission) 1910; Modern Currency Reforms 1916; The United States Postal Savings System, 1917; Monetary System of Mexico, 1917; The A.B.C. of the Federal Reserve System, 1918.

LOGAN, WALTER S.—General Counsel to the Federal Reserve Board. Practiced law in New York City in the office of Winter & Winter and also in the office of Cadwalader, Wickersham & Taft. Became Assistant Counsel to the Federal Reserve Board July 1, 1919, and General Counsel July 1, 1920.

McDougal, J. B.—Governor, Federal Reserve Bank of Chicago since 1914.

National Bank examiner, 1901–1906; became official examiner of associated banks of Chicago, 1906; organized and conducted department of examination of the Chicago Clearing House and was its official head until 1914.

MILLER, A. C.—Member Federal Reserve Board of Washington, D. C. since 1914. Assistant to the Secretary of the interior, Washington, 1913–1914. Flood Professor Economics and Commerce, University of California, 1902–13; Associate Professor Political Economy and Finance, Cornell, 1891–2; Professor of Finance, University of Chicago, 1892–1902; Professor History and Politics, University of California, 1890–1; Instructor Economics, Harvard, 1889–90.

Author of papers on finance, banking, etc. in economic and financial journals.

Phillips, C. A.—Dean, College of Commerce, University of Iowa. Member of the Dartmouth faculty, 1911–1920. Member, The Inter-American High Commission.

Editor, Readings in Money and Banking and author of Bank Credit.

Patterson, E. M.—Professor of Economics, University of Pennsylvania, 1919 to date. Formerly Assistant Professor of Economics, University of Pennsylvania, 1915–1919.

Joint author, Conway and Patterson, The Operation of the New Bank Act. Author, numerous articles on money and banking questions. Editor-in-charge of several issues of The Annals.

Powell, Chas. L.—Member of law firm of Mayer, Meyer, Austrian & Platt, Chicago; counsel of the Federal Reserve Bank of Chicago, 1914 to date. Practiced law for twenty years in Iowa. Student of banking, especially the legal aspects of banking questions.

REYNOLDS, ARTHUR—President, Continental and Commercial National Bank of Chicago, President, Continental and Commercial Trust and Savings Bank and President, Continental and Commercial Securities Company.

Cashier, Guthrie County National Bank, 1893; Cashier, Des Moines National Bank, 1895–97, President, 1897–1915; First Vice-President, Continental and Commercial National Bank 1915–1921. Chairman, Federal Legislative Committee, A.B.A. 1905; Member Currency Commission A.B.A., Treasurer, A.B.A. 1910; President, A.B.A. 1913.

REYNOLDS, G. M.—Chairman of the Board, Continental and Commercial National Bank of Chicago, Chairman of the Board, Continental and Commercial Trust and Savings Bank, Chairman of the Board, Continental and Commercial Securities Company. President, Con-

tinental and Commercial National Bank, 1910–1921. President, American Bankers Association, 1908; Adviser, National Monetary Commission, 1908; Director, Federal Reserve Bank of Chicago, New York Life Insurance Company, Commercial Insurance Company.

RICH, JOHN H.—Chairman of Board and Federal Reserve Agent, Federal Reserve Bank of Minneapolis, 1914 to date.

For many years president of a country bank and a manufacturer. President of the Citizens League of Minnesota, and active in the movement to secure the adoption of the Federal Reserve Act. Author of numerous monographs on Federal Reserve banking, the operations of Federal Reserve Banks and agricultural credit.

SEAY, GEORGE J.—Governor, Federal Reserve Bank of Richmond. For twenty years connected with a bank in Petersburg, Va. Later, a partner in the banking firm of Scott & Stringfellow of Richmond. In 1909 withdrew to carry on studies, following with close attention agitation for banking reform which resulted in the Reserve Act. Prepared case for selecting Richmond as Reserve Bank. Upon organization, elected Class B director. Elected Governor at first meeting of Board. Served as member of Federal Advisory Council. Writer on banking and railroad finance.

Scott, Wm. A.—Director of the Course in Commerce and Professor of Political Economy, University of Wisconsin, Chairman of the Board of Directors of the Commercial National Bank, Madison, Wisconsin. Professor of History and Political Science, University of South Dakota, 1887–90; Instructor in Johns Hopkins University, 1890–92.

Author, Repudiation of State Debts, 1893; Money and Banking, 1903; revised edit. 1910; Money, 1913; Banking, 1913; "Austrian School and Recent Developments," ch. VII revised edit. of Ingram's History of Political Economy, 1915.

Sprague, O. M. W.—Professor Banking and Finance, Harvard, 1913 to date. Assistant Professor, Banking and Finance, 1908–1913; Professor Economics. Imperial University of Tokyo, 1905–08; Assistant Professor, 1904–5, Harvard.

Author History of Crises under the National Banking System, 1910; Banking Reform in the United States, 1911; Theory and History of Banking, 1917, and many economic articles.

WARBURG, PAUL M.—Chairman of the Board, International Acceptance Bank, Inc. Member Federal Reserve Board for term 1914–1918.

Was Director National Bank of Commerce, United States Mortgage and Trust Co., B. and O. R. R. Co., National Railways of Mexico, Wells Fargo & Co., Westinghouse Electric and Manufacturing Company. Resigned all directorships and trusteeships when appointed to Federal Reserve Board. Author many pamphlets on banking and currency, particularly in relation to the Reserve System both before and after its organization.

Welton, A. D.—Director of Publicity,
Continental and Commercial Banks,
Chicago. General Secretary, National
Citizens League; practiced law in Detroit; Editor, Detroit Free Press, 1905–1906, St. Louis Post-Dispatch, 1911 and
Journal of the American Bankers Association, 1914–1918.

Weston, N. A.—Professor of Economics, University of Illinois; Formerly Dean of the College of Commerce and Business Administration, University of Illinois.

WHEELER, H. A.—Vice-President, Union Trust Company of Chicago since 1910; Vice-President, 1899–1901, President, 1901–1910, Credit Clearing House, Chicago; General Secretary, Chicago Association of Commerce, 1906–1907, Chairman, Ways and Means Committee 1908, Vice-President, 1909, Chairman, Executive Committee, 1910, President 1911. President, Chamber of Commerce, U.S.A. 1912–1913, 1918–1919. Director and member Executive Committee, National Citizens League.

WILDMAN, MURRAY—Professor of Economics, Leland Stanford, Jr., University, 1912 to date.

Founder, Cashier and Vice-President, Henry County Bank, Spiceland, Cal. Assistant Professor Economics, University of Missouri; Professor Economics and Commerce, Northwestern University; Organization Secretary, National Citizens League, 1911–1912; Bureau of Research, War Trade Board, and division planning and statistics War Industries Board, 1918–1919.

Author Money Inflation in the United States, 1905 and economic articles.

WILLIS, H. PARKER—Professor of Economics, Columbia University, Editor, New York Journal of Commerce and Director, Division of Analysis and Research, Federal Reserve Board. Secretary, Federal Reserve Board, 1914–1918; Assistant to Monetary Commission, 1897–8; Expert, Ways and Means Committee, House of Representatives, Washington 1911–13; Banking and Currency Committee, 1912–13; President, Philippine National Bank 1916–7; Special Commissioner in Australasia for Chase National Bank & Central Trust Company, 1919.

Author, History of the Latin Monetary Union; Principles and Problems of Modern Banking; The Federal Reserve; American Banking and many articles on banking.